

2005 Intergovernmental Priorities

Priority Issues:

1. Protection of Local Revenues

With the passage of Proposition 1A on the statewide November 2004 ballot, a measure of stability was added to the local revenue sources that Sunnyvale receives from the State. These local revenue sources are the property tax, sales tax and vehicle license fees. But regulatory actions at the federal level could threaten other major local revenues such utility users tax, and further erode local control.

Approximately 150 cities in California levy a utility users tax (UUT) on such services as energy, telecommunications and cable television. In Sunnyvale, the UUT accounts for nearly 6% of General Fund revenues. Approximately 25% of Sunnyvale's UUT comes from telecommunications providers, who are aggressively rolling out new broadband technologies to remain competitive in the marketplace. One such service is Voice over Internet Protocol, or VoIP, which allows users to make telephone calls over the Internet. While it is uncertain how fast VoIP will grow, most major telecommunications providers such as SBC, AT&T and Verizon have either rolled out VoIP service, or are planning to in the near future, along with scores of smaller companies. It is estimated that there will be one million nationwide VoIP users by calendar year-end, and perhaps as many as 18 million by 2008.

One of the central issues for Sunnyvale is the taxability of VoIP and similar technologies. Proponents of taxation argue that VoIP is simply the functional equivalent of traditional landline phone service (as in the previous determination to tax cellular phone calls), and should be taxed accordingly. Opponents argue that a hands-off regulatory posture should be adopted to encourage continued and robust technological innovation and investment. To the extent services users shift from land-based phones to Internet phones, Sunnyvale UUT revenues will very likely decline even if taxability is not an issue. One of the attractive features of VoIP is affordability. To the extent VoIP calls cost less than traditional modes of calling, less tax will be collected and remitted. Should VoIP end up being non-taxable by local governments, a more dramatic decline in revenue could result.

In November 2004 the Federal Communications Commission (FCC) declared VoIP to be an "interstate service" exempt from state regulatory authority. While this action does not necessarily preclude the collection of local UUT on VoIP, it is a step in that direction. For cities such as Sunnyvale which only tax "intra-state" phone calls, the FCC ruling will make it more difficult for the City to collect UUT on the service. Staff will continue to closely monitor regulatory and other actions and will to the best extent possible, analyze the potential impacts to the City.

Another important issue for Sunnyvale from both a fiscal and a public safety standpoint is if and how VoIP users will be able to access emergency 911 call services provided by local agencies. Currently, telecommunications providers and service users help offset the costs of local and statewide emergency 911 systems. If the standards currently required to fund and operate 911 call systems are not consistently applied to VoIP and related technologies, local first responders may be faced with expensive infrastructure costs to ensure that their 911 call systems can quickly pinpoint emergency locations when calls are made from Internet phones. As

a portent of things to come, Sunnyvale public safety dispatchers have already received VoIP-type calls through a "call translator" to a computer screen. These calls came from a VoIP company operating a server warehouse in Sunnyvale that routes 911 calls made from out-of-state Internet phones. The translated calls, none of which were associated with Sunnyvale incidents, required significant staff time to follow through on established protocols that determine the nature and location of the call.

2. Moffett Federal Airfield

Relocation of the 129th Rescue Wing

During the past year, working in partnership with Congresswoman Anna Eshoo's office and the City of Mountain View, Sunnyvale has focused efforts on advocating against the potential relocation of the 129th Rescue Wing, and protecting the airfield as a secure Federal airfield.

Despite these efforts, the 129th Rescue Wing continues to consider relocation from Moffett Federal Airfield to Castle Air Force Base in Atwater, California. Relocation would be a great loss to the community, and the unique capabilities of the 129th Rescue Wing are vital to supporting the mission of the Air National Guard in the Bay Area. The City of San Jose continues to be interested in having greater access to Moffett, either using it as a reliever airport, or as a civilian or commercial airport, should it no longer be federally secured. Given the runway constraints of the Bay Area's airports, continued attention needs to be focused on protecting the existing status of the airfield.

Onizuka Air Force Station and BRAC 2005

In May 2005, the Secretary of Defense will develop a list of military bases recommended for closure or realignment as part of the 2005 Base Realignment and Closure (BRAC) process. Sunnyvale's Onizuka Air Force Station, which was realigned after BRAC 1995, is vulnerable for further realignment or closure this year. The 21st Space Operations Squadron, the host unit at Onizuka, provides access to the worldwide Air Force Satellite Control Network and network communications to the international space community. The loss of the Onizuka Air Force Station would be detrimental to the Sunnyvale community.

Priority Watch Issues:

1. Investment funding for workforce development

As in 2004, "Investment Funding for Workforce Development" will continue to be a Priority Watch Issue for the City in 2005. Financial resources from the federal and state levels for workforce development/education and training programs are critical for the reemployment of thousands of dislocated workers, locally, and the economic sustainability of this community. Given the current financial climate at the federal and state levels, funding for workforce development continues to be vulnerable in 2005 and could potentially threaten the very survival of these local and critical programs.

2. Telecommunications

Changes in the telecommunications industry continue to be of vital concern to the City. Ongoing issues include: ensuring public benefit access, providing local

governments with the ability to adequately protect the public infrastructure, sufficient band-width for public safety purposes, and allowing cities to be compensated for the private use of the public right-of-way by all telecommunications providers.

3. Environmental Issues

State and federal environmental issues continue to have potentially significant impacts on the City. Monitoring efforts will include issues such as solid waste/recycling and non-point source discharge legislation and regulations; hazardous materials regulations; regulations which facilitate clean-up of toxic sites; water pollution control NPDES permit regulation; flood control issues; energy deregulation (or re-regulation); and clean air regulations.

The City supports LCC and NLC suggested modification of the Federal Clean Water Act to limit frivolous lawsuits designed for personal gain. Also supported are provision of discharge permits that are attainable and reflect local conditions and circumstances. Policies by Regional Water Quality Boards should recognize the goals of the Clean Water Act but apply an appropriate standard based on local circumstances.

The salt pond conversion project is ongoing and needs to be watched carefully, due to its proximity to the Water Pollution Control Plant, and in order to address other City interests. The South Bay environmental impact of San Francisco International Airport's proposed runway extension also needs to be closely watched.

Funding

The City supports legislative efforts to exempt stormwater utility fees from Proposition 218 requirements. Proposition 218, passed by California voters in 1996, requires voter approval for property-related fee or charge increases, except for charges and fees for sewer, water and refuse collection. The case can be made that stormwater fees are commensurate with level of service provided relative to the amount of impervious surface on a property, and not merely a fact of property ownership.

4. Transportation Infrastructure and Funding

Infrastructure

Protection and stabilization of transportation infrastructure funding sources will continue to be a critical issue in 2005. Sunnyvale has developed an excellent transportation infrastructure, but regional and local growth and the passage of time put continual strain on capacity and maintenance needs. The League of California Cities identified transportation investment as a priority to ensure a stable transportation finance structure for state and local governments. Support for all modes of transportation enhances livable local communities, balances housing and jobs, and supports economic development.

The key legislative issues are protection and stabilization of transportation funding including sales tax funds and other previously earmarked transportation funding and legislation. Transportation funds have proven especially vulnerable during economic downturns.

- Transportation sales tax funds are a primary source of capital improvement and transit operations. Proposition 42 which was approved by voters in March 2002, dedicated all gasoline sales tax revenue for transportation purposes, but this measure is being subjected to debate and legislative manipulation.
- State transportation funding sources must be protected from transfers to non-transportation needs. The Transportation Development Act is an example of legislation that continues to be vulnerable given the budget realities at the State level. Recent proposals by the Governor's office make clear that virtually all transportation infrastructure funding should be considered highly vulnerable to transfers for State budget relief needs.

Finally, pending *smart growth* legislation will also have a significant impact on transportation improvement priorities. The concept of coordinating land use and transportation decisions permeates through all layers of government. Ensuring that all perspectives, local sub-regional, regional, and statewide, are taken into consideration and balanced is critical to the success of any initiative in this area.

Funding

The transportation funding arena as a whole (roadway improvements, infrastructure maintenance, transit expansion, transit operations, alternative transportation initiatives) is a highly dynamic area requiring constant vigilance. Currently, at least two major initiatives will warrant closer monitoring as they develop.

At the federal level, federal transportation funding re-authorization is now overdue, with Congress having approved a bridge bill and full re-authorization not anticipated until 2004-05. The level of funding authorization affects the City and Santa Clara County in many ways, from the availability of matching funds for major roadway and transit projects, to roadway maintenance funding, to operations of Caltrain service. Special programs or provisions of federal funding laws can directly affect the City's implementation of transportation projects and programs.

Locally, Sunnyvale's local transit service provider, the Santa Clara Valley Transportation Authority, has a major shortfall in its operating funding that has been exacerbated by overcapitalization. Pressure will exist to continue to fund growth of the system, primarily expansion of BART to Santa Clara County, while maintaining as lean an operation as possible. Reconfiguration of service and imposition of new funding mechanisms both have the potential to have significant local effects.

5. Reducing the Cost of Doing Business in California

The cost of doing business in California has been a deterrent to business development and the creation of new jobs. California, and especially the Bay Area, is not seeing the same rebound from the economic downturn as other parts of the country. Other states are actively comparing their costs to that of California as a marketing tool to lure companies from California to their states.

Governor Schwarzenegger has stated that he would take actions to reduce the cost of doing business in California, improve the state's business climate and promote California as a good place to do business. This includes reforming workers compensation insurance and government regulations negatively impacting business. While reforms have been made, they have fallen short of the expectations from the

business community and additional work is needed to ensure that California is competitive both nationally and globally.

6. Streamlined Sales Tax Project (SSTP)

The SSTP is a multi-state joint public/private sector effort to simplify and modernize sales and use tax collections and administration nationally. Currently 45 states and the District of Columbia impose a sales and use tax, and 42 states and the District of Columbia are involved in the SSTP. The ultimate goal of the SSTP is to obtain federal authorization to charge "use tax" on out-of-state catalog and Internet sales. By some estimates, state and local governments have lost \$13 billion in sales tax due to consumer purchases over the Internet. This amount could grow to nearly \$55 billion by 2011.

In 2003, Senate Bill 157 was signed into law allowing California to appoint a Governing Board to consider participation in the SSTP. The Board's role will be to determine whether the State will benefit from participation in the project and to recommend changes in the law necessary to conform to the project's requirements, with final approval resting with the legislature.

Various rules and methods for allocating or exempting sales and use tax across the country will make it difficult for all states to eventually participate in the project. While revenue neutrality is one of the main goals of the project, there will be "winners" and "losers" to the extent any given state must change its tax allocation structure to participate.

California's participation could enhance sales and use tax collections from remote sellers, but it could also positively or negatively impact local governments, especially jurisdictions that depend on business to business sales. Still other significant concerns exist, among them: recent telecommunications industry lobbying efforts for tax relief in SSTP implementing legislation, potential loss of local audit authority, and potentially significant changes in local sales tax allocation that would impact local government revenues but not necessarily the State's coffers. While it is unknown how this could impact the City of Sunnyvale at this time, staff is closely following the State's efforts to date.

7. Adoption of the International Building Code

California has always utilized the International Building Code, and 44 other states have already adopted the 2000 edition. In July 2003 the Building Standards Commission approved the adoption of the National Fire Protection Association (NFPA) 5000 building code. However, since the recall election, this decision is on hold and will hopefully be reversed.

Adoption of the alternative code proposed by the NFPA would bring confusion, delay and increased cost to the building industry and to local governments in California. Direct fiscal impacts will include significantly higher costs for training and codebook purchases. It will also increase the costs of doing business in California, acting as a further deterrent to business development in California cities.